

You use only 2 BCFE of the royalty suspension supplement before the oil wells deplete. You must use up the 15 BCF of royalty suspension volume before you use the remaining 3 BCFE of the royalty suspension supplement for gas produced from the qualified well.

(c) If you have no current production on which to apply the royalty suspension supplement allowed under § 203.44, your royalty suspension supplement applies to the earliest subsequent production of gas and oil from, or allocated under an MMS-approved unit agreement to, your lease.

(d) Unused royalty suspension supplements transfer to a successor lessee and expire with the lease.

(e) You may not apply the royalty suspension supplement allowed under § 203.44 to production from any other lease, except for production allocated to your lease from an MMS-approved unit agreement. If your certified unsuccessful well is on a lease subject to an MMS-approved unit agreement, the lessees of other leases in the unit may not apply any portion of the royalty suspension supplement for your lease to production from the other leases in the unit.

(f) You must begin or resume paying royalties when cumulative gas and oil production from, or allocated under an MMS-approved unit agreement to, your lease (excluding any gas produced from qualified wells subject to a royalty suspension volume allowed under § 203.41) reaches the applicable royalty suspension supplement. For the month in which the cumulative production reaches this royalty suspension supplement, you owe royalties on the portion of gas or oil production that exceeds the amount of the royalty suspension supplement remaining at the beginning of that month.

§ 203.46 What administrative steps do I take to obtain and use the royalty suspension supplement?

(a) Before you start drilling a well on your lease targeted to a reservoir at least 18,000 feet TVD SS, you must notify, in writing, the MMS Regional Supervisor for Production and Development of your intent to begin drilling operations and the depth of the target.

(b) After drilling the well, you must provide the MMS Regional Supervisor

for Production and Development within 60 days after reaching the total depth in your well:

(1) Information that allows MMS to confirm that you drilled a certified unsuccessful well as defined under § 203.0, including:

(i) Well log data, if your original well or sidetrack does not meet the producibility requirements of 30 CFR part 250, subpart A; or

(ii) Well log, well test, seismic, and economic data, if your well does meet the producibility requirements of 30 CFR part 250, subpart A; and

(2) Information that allows MMS to confirm the size of the royalty suspension supplement for a sidetrack, including sidetrack measured depth and supporting documentation.

(c) If you commenced drilling a well that otherwise meets the criteria for a certified unsuccessful well on or after March 26, 2003, and finished it before May 3, 2004, provide the information in paragraph (b) of this section no later than August 3, 2004.

[69 FR 3510, Jan. 26, 2004, as amended at 69 FR 24054, Apr. 30, 2004]

§ 203.47 Do I keep royalty relief if prices rise significantly?

(a) You must pay royalties on all gas and oil production for which royalty suspension volume or royalty suspension supplement otherwise would be allowed under §§ 203.40 through 203.46 for any calendar year when the average daily closing NYMEX natural gas price exceeds the threshold of \$9.34 per MMBtu, adjusted annually after year 2004 for inflation. The threshold price for any calendar year after 2004 is found by adjusting the threshold price in the previous year by the percentage that the implicit price deflator for the gross domestic product as published by the Department of Commerce changed during the calendar year.

(b) You must pay any royalty due under this paragraph, plus late payment interest from the end of the month after the month of production until the date of payment under 30 CFR 218.54, no later than 90 days after the end of the calendar year for which you owe royalty.

(c) Production volumes on which you must pay royalty under this section

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count as part of your royalty suspension volumes and royalty suspension supplements.

§ 203.48 May I substitute the deep gas drilling provisions in § 203.0 and §§ 203.40 through 203.47 for the deep gas royalty relief provided in my lease terms?

(a) You may exercise an option to replace the applicable lease terms for royalty relief related to deep-well drilling with those in § 203.0 and §§ 203.40 through 203.47 if you have a lease issued with royalty relief provisions for deep-well drilling. Such leases:

(1) Must be issued as part of an OCS lease sale held after January 1, 2001, and before April 1, 2004; and

(2) Must be located wholly west of 87 degrees, 30 minutes West longitude in the GOM entirely or partly in water less than 200 meters deep.

(b) To exercise the option under paragraph (a) of this section, you must notify, in writing, the MMS Regional Supervisor for Production and Development of your decision before September 1, 2004 or 180 days after your lease is issued, whichever is later, and specify the lease and block number.

(c) Once you exercise the option under paragraph (a) of this section, you are subject to all the activity, timing, and administrative requirements pertaining to deep gas royalty relief as specified in §§ 203.40 through 203.47.

(d) Exercising the option under paragraph (a) of this section is irrevocable. If you do not exercise this option, then the terms of your lease apply.

ROYALTY RELIEF FOR END-OF-LIFE LEASES

§ 203.50 Who may apply for end-of-life royalty relief?

You may apply for royalty relief in two situations.

(a) Your end-of-life lease (as defined in § 203.2) is an oil and gas lease and has average daily production of at least 100 barrels of oil equivalent (BOE) per month (as calculated in § 203.73) in at least 12 of the past 15 months. The most recent of these 12 months are considered the qualifying months. These 12 months should reflect the basic operation you intend to use until your resources are depleted. If you changed

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your operation significantly (e.g., begin re-injecting rather than recovering gas) during the qualifying months, or if you do so while we are processing your application, we may defer action on your application until you revise it to show the new circumstances.

(b) Your end-of-life lease is other than an oil and gas lease (e.g., sulphur) and has production in at least 12 of the past 15 months. The most recent of these 12 months are considered the qualifying months.

[63 FR 2618, Jan. 16, 1998, as amended at 63 FR 57249, Oct. 27, 1998]

§ 203.51 How do I apply for end-of-life royalty relief?

You must submit a complete application and the required fee to the appropriate MMS Regional Director. Your MMS regional office will provide specific guidance on the report formats. A complete application for relief includes:

(a) An administrative information report (specified in § 203.83) and

(b) A net revenue and relief justification report (specified in § 203.84).

§ 203.52 What criteria must I meet to get relief?

(a) To qualify for relief, you must demonstrate that the sum of royalty payments over the 12 qualifying months exceeds 75 percent of the sum of net revenues (before-royalty revenues minus allowable costs, as defined in § 203.84).

(b) To re-qualify for relief, e.g., either applying for additional relief on top of relief already granted, or applying for relief sometime after your earlier agreement terminated, you must demonstrate that:

(1) You have met the criterion listed in paragraph (a) of this section, and

(2) The 12 required qualifying months of operation have occurred under the current royalty arrangement.

§ 203.53 What relief will MMS grant?

(a) If we approve your application and you meet certain conditions, we will reduce the pre-application effective royalty rate by one-half on production up to the relief volume